

GAO

Briefing Report to Senator William  
Proxmire

December 1987

# PROCUREMENT

## Contract for Purchase and Storage of Jet Fuel in Bahrain



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United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-229130

December 2, 1987

The Honorable William Proxmire  
United States Senate

Dear Senator Proxmire:

In response to your February 10, 1987, letter and subsequent discussions with representatives of your office, we reviewed a 1984 Defense Fuel Supply Center (DFSC) \$7.2 million sole-source contract awarded to Caltex Oil Products Company for the purchase and storage of jet fuel in the Persian Gulf country of Bahrain. We briefed your office on the results of our work and, as requested, we have prepared this briefing report to summarize the information provided at that time.

In a 1986 report, the Department of Defense, Office of the Inspector General (DOD-IG) substantiated a DFSC employee's allegation that government quality assurance procedures for the contract had been compromised to the extent that the government's interest was not properly protected and that DFSC had agreed to pay storage fees it thought at the time were unreasonable. Our work confirmed that the usual quality assurance procedures were not followed. DFSC cited "political sensitivity" as its basis for not following sound procurement practices and for not conducting independent routine quality assurance inspections in its administration of this contract.

## Background

The United States Central Command (CENTCOM) area of responsibility includes Mideast and Persian Gulf countries. The Commander in Chief, CENTCOM, has described Bahrain as an island state at the center of the Arab-controlled petroleum producing zones of the Persian Gulf, occupying a strategic position of major importance to the economies of the United States, Western Europe, and Japan.

To satisfy a portion of the CENTCOM fuel reserve requirement, DFSC negotiated with and awarded Caltex a sole-source contract for the purchase and storage of 150,000 barrels of commercial jet aviation fuel. DFSC officials said that Caltex was the only viable contractor in the area at that time. The contract was signed in March 1984 and in May 1984, DFSC paid Caltex about \$5.5 million for the fuel. For the commingled storage of this government-owned fuel with Caltex-owned fuel, DFSC made monthly payments totaling about \$1.7 million until January 1987, when the fuel was shipped to England.

Political sensitivity was DFSC's primary reason for initially deviating from normal procurement and quality assurance procedures. However, we were unable to independently verify or refute the claim of political sensitivity in our discussions with Department of State and DOD officials. Department of State officials told us that the claim of political sensitivity did not come from the American Embassy, and that the American Ambassador at the time the contract was ongoing, had no knowledge of any political sensitivity or of any need for the confidentiality of the contract. During our interviews with DOD personnel, an official within the international security affairs office stated that he knew of no reason why the contract was initially considered politically sensitive.

In explaining their reasons for political sensitivity, DFSC and Caltex officials stated that certain anti-American factions might have exploited the situation to foster political unrest in Bahrain or may have even prompted terrorist attacks on the refinery and storage facilities. DFSC officials explained that although DFSC had purchased petroleum products from Caltex in Bahrain for almost 40 years, this was the first time that a U.S. government-owned petroleum product was actually stored in Bahrain. In August 1985, when DFSC learned that the government of Bahrain was aware of the entire situation and was interested in offering storage, political sensitivity was no longer an issue.

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## Conclusion

Sound procurement practices and effective quality assurance measures were subordinated by DFSC in meeting the military requirement for fuel storage in the Persian Gulf area. The primary reason DFSC gives for its actions is that the contract was politically sensitive. We were not able to independently verify the political sensitivity claims of DFSC and Caltex officials.

Since the contract in question was completed in January 1987, we are not making any recommendation.

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## Objective, Scope and Methodology

Our objective was to identify any unusual aspects associated with this sole-source procurement. We reviewed the data provided to us by your office and independently identified, collected, and analyzed other relevant contract information. We conducted interviews with Department of Defense, Department of State and Caltex officials; we held discussions with the former Commander, DFSC and a Vice President of Caltex, both

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of whom are now retired. Our work was performed from March to October 1987 at the Departments of Defense and State, including the DOD-IG and DFSC, in accordance with generally accepted government auditing standards.

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Unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 10 days after its issuance. At that time we will send copies to the Secretaries of Defense and State; Commanders of DLA and DFSC; and Caltex. We will also make copies available to others upon request. If you have any questions please contact me on 275-4587.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large, sweeping initial "P" and a cursive "Math".

Paul F. Math  
Senior Associate Director

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DFSC still maintains the ability to buy and store fuel in Bahrain. In June 1986, using competitive procurement procedures, DFSC signed a multi-year contract with Caltex for services and facilities to receive, store, and ship government-owned petroleum product in Bahrain. According to a DFSC contracting official, construction of separate new storage tanks for this contract was completed in June 1987.

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## Caltex Contract Features

Justification and approval information pertaining to the decision to negotiate on a sole-source basis with Caltex is classified. In an unclassified memorandum concerning a pre-negotiation briefing, DFSC cited "political sensitivity" as the reason for classifying this information.

DFSC did not follow the Defense Acquisition Regulation (DAR) for publicizing contract information primarily because it believed the government of Bahrain would not agree to the award of the contract if it were publicized. In its determination and findings in conjunction with the waiver of publication requirements, the Defense Logistics Agency (DLA), DFSC's parent organization, stated that . . .

" Because of the politically sensitive location of the storage and the delicate nature of current international atmosphere in the area, the local national government has informed Caltex that it would not allow a contract to be consummated if any of the facts were publicized."

The contract did not permit normal quality assurance procedures. The original contract contained limitations regarding access and inspection by quality assurance representatives because of "political sensitivity". For example, the contract limited DFSC to quarterly inspections in lieu of normal unrestricted access to the product for inspection. However, even this limited access was not exercised because the DFSC representative feared public disclosure of the politically sensitive contract if any inspections were made. Consequently, DFSC relied solely on Caltex records for information on the quantity and quality of the government-owned fuel.

DFSC no longer considered the contract to be politically sensitive as of August 1985, and initiated action modifying the contract to allow normal quality control procedures. The contract was modified in January 1986 to permit the quality assurance representative unrestricted access to the fuel tanks for the purpose of both quality and quantity inspections.

